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TO ALL AMERICAN REPUBLIC DIPLOMATIC POSTS

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SUBJECT: APPLICATION TO LATIN AMERICA OF JAMAICA AGREEMENTS

ON ACCESS TO IMF RESOURCES

REFERENCE: STATE 012373

1. AS OUTLINED IN REFTTEL, THREE MEASURES ADOPTED BY THE IMF INTERIM COMMITTEE WILL PROVIDE ADDITIONAL ACCESS TO IMF BALANCE OF PAYMENTS FINANCING FOR MEMBER COUNTRIES EXPERIENCING DIFFICULTIES IN THE CURRENT WORLD ECONOMIC SITUATION. THESE MEASURES INCLUDE THE TEMPORARY EXPANSION OF MEMBER'S POTENTIAL ACCESS TO PRESENT FUND RESOURCES UNDER THE REGULAR CREDIT TRANCHE POLICIES; ESTABLISHMENT OF A TRUST FUND, FINANCED FROM PROFITS ON SALES OF 1/6 OF THE IMF'S GOLD AND CONTRIBUTIONS, TO PROVIDE CONCESSIONAL PAYMENTS ASSISTANCE TO POOREST COUNTRIES; AND LIBERALIZATION OF THE IMF'S COMPENSATORY FINANCING FACILITY. THIS CABLE OUTLINES THE LIMITED OFFICIAL USE

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APPLICATION OF THESE MEASURES TO LATIN AMERICAN COUNTRIES.

2. CREDIT TRANCHE WIDENING: AS AN INTERIM MEASURE UNTIL THE AGREED IMF QUOTA INCREASE GOES INTO EFFECT, ALL MEMBERS' POTENTIAL ACCESS TO FUND RESOURCES UNDER THE REGULAR CREDIT POLICIES HAS BEEN TEMPORARILY EXPANDED BY 45 PERCENT. THUS EACH CREDIT TRANCHE IS INCREASED FROM 25 PERCENT OF QUOTA TO 36.25 PERCENT OF QUOTA, WITH TOTAL POTENTIAL ACCESS FOR EACH COUNTRY RAISED FROM 100 PERCENT TO 145 PERCENT OF ITS IMF QUOTA. THE INCREASE IN MAXIMUM POTENTIAL ACCESS FOR LATIN AMERICAN COUNTRIES AS A GROUP WOULD THEORETICALLY BE SDR 1.2 BILLION (ABOUT DOLS. 1.4 BILLION). THE PRACTICAL IMPLICATIONS OF THE CREDIT TRANCHE EXPANSION WILL VARY FROM COUNTRY TO COUNTRY, DEPENDING ON THE EXTENT TO WHICH THEY NEED AND QUALIFY FOR IMF FINANCING. IT WILL PERMIT A MEMBER TO DRAW SOMEWHAT LARGER AMOUNTS (11.25 PERCENT OF QUOTA) FROM THE IMF WITHOUT TRIGGERING THE TOUGHER POLICY CONDITIONALITY THAT A COUNTRY MUST ACCEPT AS ITS OUTSTANDING LOANS RISE FROM ONE CREDIT TRANCHE INTO THE NEXT. THUS, FOR EXAMPLE, A COUNTRY MAY NOW DRAW UP TO 36.25 PERCENT OF QUOTA IN THE FIRST CREDIT TRANCHE--I.E. THE TRANCHE SUBJECT TO THE WEAKEST DEGREE OF POLICY CONDITIONALITY. UNDER THE PREVIOUS LIMITS, CREDIT TRANCHE DRAWING IN EXCESS OF 25 PERCENT OF QUOTA WOULD REQUIRE ADHERENCE TO THE TOUGHER CONDITIONALITY APPLIED TO DRAWINGS IN THE HIGHER CREDIT TRANCHE.

THIS TEMPORARY EXPANSION DOES NOT AFFECT DRAWINGS IN THE GOLD TRANCHE, BUT IS RESTRICTED TO THE FOUR CREDIT TRANCHE. FOR MEMBERS WITH OUTSTANDING CREDIT TRANCHE DRAWINGS, THE IMF EXECUTIVE DIRECTORS HAVE DECIDED THAT THE AMOUNTS AVAILABLE UNDER THE EXISTING DRAWING AGREEMENT WILL NOT BE AUTOMATICALLY INCREASED. THAT IS, A REQUEST FOR ANY ADDITIONAL FUNDS , , , BY A CURRENT BORROWER WILL BE SUBJECT TO THE FUND'S REGULAR REVIEW PROCEDURES. HOWEVER, ANY ADDITIONAL FUNDS THAT ARE MADE AVAILABLE AND WHICH DO NOT BRING THE LEVEL OF OUTSTANDING DRAWINGS FROM THE COUNTRY ABOVE A NEW CREDIT TRANCHE LIMIT WILL BE SUBJECT TO THE SAME DEGREE OF POLICY CONDITIONALITY (ALTHOUGH NOT NECESSARILY THE SAME CONDITIONS) AS THE OLD DRAWINGS. FOR EXAMPLE, IF BOLIVIA, WHICH HAS DRAWN ONLY LIMITED OFFICIAL USE

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ITS FIRST CREDIT TRANCHE UNDER PREVIOUS PROCEDURES, WERE TO REQUEST 10 PERCENT ADDITIONAL IMF FINANCING, IT WOULD STILL BE SUBJECT TO FIRST CREDIT TRANCHE CONDITIONALITY AS ITS OUTSTANDING CREDIT TRANCHE DRAWINGS WOULD REMAIN BELOW 36.25 PERCENT OF QUOTA. (AS OF NOVEMBER 30, FIVE OF TWENTY-FIVE LATIN AMERICAN COUNTRIES HAD CREDIT TRANCHE DRAWINGS, ALTHOUGH NONE HAD DRAWN BEYOND THE SECOND TRANCHE. ANOTHER SEVEN LATIN AMERICAN COUNTRIES HAD DRAWN

THEIR GOLD TRANCHE.)

WHEN THE NEW QUOTAS ARE APPROVED, 19 COUNTRIES WILL HAVE REDUCED ACCESS TO IMF CREDIT AS COMPARED WITH ACCESS UNDER THE TEMPORARY TRANCHE EXPANSION BECAUSE THEIR PROPOSED QUOTA INCREASE IS LESS THAN 45 PERCENT. NONE OF THE SIX COUNTRIES WITH PROPOSED QUOTA INCREASES GREATER THAN 45 PERCENT ARE CURRENT IMF BORROWERS.

3. STAND-BY ARRANGEMENTS: ALL STAND-BY ARRANGEMENTS ARE EXPRESSED IN TERMS OF ABSOLUTE AMOUNTS, AND THE INCREASE IN THE SIZE OF CREDIT TRANCHE HAS NO EFFECT ON THE TOTAL AMOUNT WHICH MAY BE DRAWN UNDER AN EXISTING STAND-BY. HOWEVER, THE TOUGHER PHASING AND PERFORMANCE CRITERIA FOR

SECOND TRANCHE BORROWINGS WILL NOT APPLY UNTIL DRAWINGS UNDER THE STAND-BY EXCEED 36.25 PERCENT OF QUOTA. OF THE SIX LATIN AMERICAN COUNTRIES WITH STAND-BY ARRANGEMENTS, ONLY HAITI HAS AN ARRANGEMENT WHICH WOULD ALLOW CREDIT TRANCHE DRAWINGS IN EXCESS OF 25 PERCENT BUT LESS THAN 36.25 PERCENT OF QUOTA.

4. THE TRUST FUND: TO FINANCE THE TRUST FUND, ONE-SIXTH OF THE IMF'S GOLD (25 MILLION OUNCES) WILL BE SOLD AT PUBLIC AUCTION OVER A FOUR YEAR PERIOD WITH THE PROCEEDS IN EXCESS OF THE OFFICIAL PRICE AVAILABLE FOR TRUST FUND OPERATIONS. THIS WILL BE SUPPLEMENTED BY ANY CONTRIBUTIONS THAT MIGHT BE MADE AVAILABLE. THE PROPORTION OF THE PROFITS FROM THE GOLD SALE CORRESPONDING TO THE QUOTA SHARE OF THE LESS DEVELOPED COUNTRIES WILL BE DISTRIBUTED DIRECTLY TO THEM. (THE DEFINITION OF A DEVELOPING COUNTRY FOR DIRECT DISTRIBUTION HAS NOT BEEN DECIDED. DEPENDING ON THE RESOLUTION OF THE DEFINITIONAL ISSUE, LATIN AMERICAN LIMITED OFFICIAL USE

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CAN COUNTRIES COULD RECEIVE DIRECTLY UP TO 8.9 PERCENT OF THE PROFITS.) THE REMAINDER AFTER THE DIRECT DISTRIBUTION WILL BE USED TO PROVIDE CONCESSIONAL BALANCE OF PAYMENTS FINANCING TO COUNTRIES WITH 1973 PER CAPITA INCOME NOT EXCEEDING SDR 300 (ABOUT DOLS. 350). MANY OF THE OPERATING DETAILS OF THE TRUST FUND--SUCH AS LOAN CRITERIA, TERMS AND CONDITIONS--REMAIN TO BE DECIDED. FIVE COUNTRIES IN THE REGION MEET THE PER CAPITA INCOME CRITERION FOR TRUST FUND LOANS--EL SALVADOR, GRENADA, HONDURAS, BOLIVIA, AND HAITI. IT SHOULD ALSO BE NOTED THAT AN ADDITIONAL ONE-SIXTH OF IMF GOLD WILL BE DISTRIBUTED TO ALL MEMBERS IN EXCHANGE FOR CURRENCY AT THE CURRENT OFFICIAL PRICE ON THE BASIS OF PRESENT QUOTAS OVER THE FOUR YEAR PERIOD. LATIN AMERICA'S SHARE WILL BE 2.225 MILLION OUNCES.

5. COMPENSATORY FINANCING FACILITY: THE LIBERALIZATION OF THIS FACILITY WILL PROVIDE MEMBERS WITH ADDITIONAL ACCESS TO IMF RESOURCES TO HELP MEET BALANCE OF PAYMENTS FINANCING PROBLEMS ARISING FROM TEMPORARY SHORTFALLS IN EXPORT EARNINGS DUE TO FACTORS BEYOND THEIR CONTROL. FOUR LATIN AMERICAN COUNTRIES HAVE COMPENSATORY DRAWINGS OUTSTANDING (ARGENTINA, CHILE, URUGUAY AND JAMAICA) TOTALING SDR 273.2 MILLION. ONLY CHILE HAS DRAWINGS FROM THE FACILITY THAT ARE NEAR THE MAXIMUM ALLOWED UNDER THE OLD RULES. CREDIT TRANCHE WIDENING DOES NOT APPLY TO DRAWINGS UNDER THIS FACILITY.

6. OIL FACILITY: DRAWINGS UNDER THE 1974 AND 1975 OIL FACILITY ACCOUNT FOR ALMOST HALF THE TOTAL IMF DRAWINGS DURING THOSE YEARS BY LATIN AMERICAN COUNTRIES. THERE WILL BE NO 1976 OIL FACILITY. THE TERMINAL DATE FOR SUBMISSION OF INTENTIONS TO PURCHASE FUNDS UNDER THE 1975 OIL FACILITY IS TENTATIVELY SET FOR MARCH 12, 1976. AFTER THAT TIME THE EXECUTIVE DIRECTORS MAY INCREASE SLIGHTLY THE AMOUNT A COUNTRY MAY DRAW FROM THE FACILITY IF THERE ARE ANY FUNDS REMAINING AFTER ALL REQUESTS ARE RECEIVED.

7. TA

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